# **CITY OF ONAWAY ONAWAY, MICHIGAN**

Financial Statements For the Fiscal Year Ended March 31, 2006

**Prepared By:** Richard E. Mahlmeister, C.P.A., P.C. 580 S. Nicolet, P.O.Box 996 Mackinaw City, MI 49701

Michigan Department of Treasury

Aug Issued	litin	ig P	Procedures Rej 2 of 1968, as amended an	<b>port</b> d P.A. 71 of 1919	, as amended.				
		_	vernment Type		_	Local Unit Na	me		County
	ount	ty	⊠City □Twp	□Village	□Other	City of On			Presque Isle
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Ma	rch	31, 2	2006	November	28, 2006		December 28, 20		
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			d public accountants	•		_			
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	YES	9	Check each applic	able box bel	ow. (See in	structions fo	r further detail.)		
1.	×		All required compor reporting entity note					nancial stat	ements and/or disclosed in the
2.		X	There are no accum (P.A. 275 of 1980)	nulated deficit or the local ur	s in one or nit has not e	more of this exceeded its	unit's unreserved fund babudget for expenditures.	alances/unr	estricted net assets
3.	×		The local unit is in o	compliance wi	th the Unifo	orm Chart of	Accounts issued by the D	Department	of Treasury.
4.	×		The local unit has a	idopted a bud	get for all re	equired funds	<b>5.</b>		
5.	×		A public hearing on	the budget w	as held in a	accordance v	vith State statute.		
6.	×	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.					ncy Municipal Loan Act, or		
7.	×		The local unit has n	ot been delind	quent in dis	tributing tax	revenues that were colle	cted for and	ther taxing unit.
8.	×		The local unit only h	nolds deposits	/investmen	its that comp	ly with statutory requiren	nents.	
9.	×						s that came to our attentions to seed (see Appendix H of E		ed in the <i>Bulletin for</i>
10.	×		that have not been	previously cor	mmunicate	d to the Loca			during the course of our audit . If there is such activity that has
11.		×	The local unit is free	e of repeated	comments	from previou	s years.		
12.	×		The audit opinion is	UNQUALIFIE	ED.				
13.	×		The local unit has o accepted accounting			r GASB 34 a	s modified by MCGAA S	tatement #7	and other generally
14.	×		The board or counc	il approves al	l invoices p	rior to payme	ent as required by charte	r or statute.	
15.	X		To our knowledge,	bank reconcili	ations that	were review	ed were performed timely	<b>/</b> .	
incl des	uded cripti	in ti on(s		dit report, nor /or commissio	do they on.	btain a stan	d-alone audit, please er		the audited entity and is not name(s), address(es), and a
We	have	e en	closed the following	g:	Enclosed	Not Requir	ed (enter a brief justification	1)	
Fin	ancia	ıl Sta	tements		$\boxtimes$				
The letter of Comments and Recommendations									
Oth	er (D	escrib	e)						
1			Accountant (Firm Name) Mahlmeister, CPA	, PC			Telephone Number 231-436-5223		
1	el Add		Micolet Street, P.9	/Box/996			City Mackinaw City	State MI	Zip 49701
Aut	glizik		Signature Mull	1 Co	<i>))  </i>	inted Name Richard E. M	fahlmeister, CPA	17351	

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Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

#### INDEPENDENT AUDITOR'S REPORT

November 28, 2006

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the *City of Onaway, Onaway, Michigan*, as of and for the year ended March 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Onaway's* management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the *City of Onaway, Onaway, Michigan* as of March 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 28, 2006, on my consideration of the City of Onaway's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 34 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Onaway's* basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements of the *City of Onaway, Onaway, Michigan*. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.

Richard E. Mahlmeister, C.P.A.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

#### FINANCIAL HIGHLIGHTS

- The City's combined net assets increased \$1,817,781. Separately, governmental activities increased \$448,761 while business-type net assets increased \$1,369,020. Both increases are due to significant grants for both our sewer and courthouse restoration projects.
- The total cost of basic programs, excluding capital outlay and debt principal payments, were \$554,126 for governmental activities and \$558,676 for business-type activities.
- Total revenues were \$1,002,887 for governmental activities (including \$298,198 of capital grants and contributions) and \$1,886,527 for business-type activities (including \$1,711,295 for capital grants and contributions, and \$233,459 of operating grants and contributions).
- The City repaid \$38,462 of long-term debt during the fiscal year. The City issued Sanitary Sewer Revenue Bonds of \$1,095,000 for construction of Phase III of the sewer system and an installment note of \$50,000 for the purchase of a new plow truck.
- At the end of the fiscal year, the General Fund had \$257,024 of unreserved fund balance available for future expenditures. This represents approximately 41% of total General Fund expenditures.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) notes to the financial statements. This report also contains required and other supplementary information. The basic financial statements include two different kinds of statements that present different views of the City.

Government-wide financial statements. The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business-type activities.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include legislative, general government, public safety, public works and recreation and culture. The business-type activities include water and sewer operations.

Fund financial statements. The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds, not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants, they may also be created by the City Commission. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The City has the following types of funds:

#### **Governmental Funds**

Most of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The City maintains six individual governmental funds; General Fund, Major Street and Local Street Funds, Onaway Area Fire Board, Courthouse Construction Fund and Courthouse Debt Fund. All of which we consider major funds. The City funds are financed primarily by both property tax revenue and state shared revenues. A budgetary comparison statement has been provided for these general and special revenue funds to demonstrate compliance with the budgets.

#### **Proprietary Funds**

The City maintains two different proprietary funds, which are reported as business-type activities in the government-wide financial statements. The City's water and sewer enterprise funds are both considered major funds. The City also uses an Internal Service Fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

#### **Fiduciary Funds**

The City acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The City maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belongs. These activities do not appear in the City's government-wide financial statements since the assets do not belong to the City. The City maintains a Tax Collection Fund in this category.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$1,916,268 for the governmental activities and \$7,479,9011 for the business-type assets, as of March 31, 2006.

A large portion of the City's net assets are invested in capital assets, less any debt to acquire those assets. The City uses those assets to provide services to our citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

The comparison of net assets of governmental and business-type activities from year to year serves to measure a government; financial position:

#### City of Onaway Net Assets March 31,

	GOVERNI ACTIV		BUSINES ACTIV	_	ТОТ	<b>TAL</b>
	2006	2005	2006	2005	2006	2005
Current assets	\$729,310	\$789,564	\$239,619	\$469,518	\$968,929	\$1,259,082
Other assets	9,658	8,338	47,385	31,602	57,043	39,940
Capital assets (net)	1,562,724	1,098,320	9,917,589	7,495,736	11,480,313	8,594,056
Total assets	\$2,301,692	\$1,896,222	\$10,204,593	\$7,996,856	\$12,506,285	\$9,893,078
1 0.21 4.50 1.5						
Current liabilities	38,266	113,244	115,692	334,975	153,958	448,219
Long-term liabilities	347,158	315,471	2,609,000	1,551,000	2,956,158	1,866,471
Total Liabilities	385,424	428,715	2,724,692	1,885,975	3,110,116	2,314,690
10.01 2.00	<del></del>					
Net assets:						
Invested in capital assets,						
net of related dcbt	1,187,003	797,504	7,271,589	5,933,736	8,458,592	6,731,240
Restricted	14,065	13,718	27,007	26,459	41,072	40,177
Unrestricted	715,200	656,285	181,305	150,686	896,505	806,971
Ombouloud						
	\$1,916,268	\$1,467,507	\$7,479,901	\$6,110,881	\$9,396,169	\$7,578,388
	<del></del>		<del></del>			

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The most significant portion of the City's Net Assets is the investment in capital assets (e.g. land, buildings, equipment and water and sewer systems), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$896,505 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

The following table summarizes the results of the changes in Net Assets of the City:

#### City of Onaway Change in Net Assets March 31,

	GOVERNMENTAL		BUSINES		TOTAL		
	ACTIVITIES		ACTIV 2006	2005	2006	2005	
	2006	2005	2000	2005	2000	2003	
REVENUES:							
Program revenues:	#104.55 <b>7</b>	#135 OO1	<b>#3</b> 40 021	¢101 72A	\$344,588	\$307,711	
Charges for services	\$104,557	\$125,981	\$240,031	\$181,730	\$344,J66	\$507,711	
Operating grants and			222 450	220 120	222.450	220 129	
contributions	-	-	233,459	329,128	233,459	329,128	
Capital grants and contributions	298,198	620,822	1,413,037	2,510,07 <b>6</b>	1,711,235	3,130,898	
General revenues:					0.00.004	266 106	
Property taxes	268,073	266,496	251	-	268,324	266,496	
State-shared revenues	232,671	238,986	-	-	232,671	238,986	
Interest income	6,850	3,589	918	<b>-</b> .	7,768	3,589	
Gain on sale of capital assets	125,100	-	-	-	125,100	-	
Other	7,438	8,157			7,438	8,157	
Total Revenues	1,042,887	1,264,031	1,887,696	3,020,934	2,930,583	4,284,965	
EXPENSES:							
Legislative	14,318	13,414	-	-	14,318	13,414	
General government	246,377	194,422	-	-	246,377	194,422	
Public safety	136,986	144,159	-	-	136,986	144,159	
Public works	121,688	206,074	-	-	121,688	206,074	
Recreation and culture	18,718	21,733	-	-	18,718	21,733	
Interest and fees	16,039	17,394	-	-	16,039	17,394	
Sewer expenses	-	-	423,333	368,840	423,333	368,840	
Water expenses	-		135,343	1 <b>26</b> ,456	135,343	126,456	
Total Expenses	554,126	597,196	558,676	495,296	1,112,802	1,092,492	
Transfers	(40,000)	(82,000)	40,000	82,000			
Net assets:							
Increase in Net Assets	448,761	584,835	1,369,020	2,607,638	1,817,781	3,192,473	
Beginning Net Assets, as restated	1,467,507	882,672	6,110,881	3,503,243	7,578,388	4,385,915	
Ending Net Assets	\$1,916,268	\$1,467,507	\$7,479,901	\$6,110,881	\$9,396,169	\$7,578,388	

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. General Fund balance decreased \$10,019, from \$303,519 on March 31, 2005 to \$293,500 on March 31, 2006, despite the fact that \$24,564 in courthouse clock donations included within the 2005 fund balance was spent to install a courthouse clock during the 2005-06 fiscal year. In fact, the health of the unreserved fund balance in the General Fund improved during the fiscal year, as it increased \$3,507, from \$253,517 on March 31, 2005 to \$257,024 on March 31, 2006. This is due largely to (though General Fund revenues and expenditures increased slightly from 2004-05 to 2005-06) the General Fund contributing significantly less to its Sewer Fund in 2005-06 than it had the prior fiscal year. Though the sewer system remained under construction in 2005-06, a greater number of customers were connected to the system and paying rates to support the operations and debt associated with the system. The City sold its public works property, using the proceeds of that sale (\$130,000) and a \$60,000 grant, to construct a new garage better suited to meet the needs of the public works department.

The City's Major Street Fund balance increased \$19,175, from \$110,210 on March 31, 2005 to \$129,385 on March 31, 2006, while the Local Street Fund balance decreased \$3,113, from \$29,694 on March 31, 2005 to \$26,581 on March 31, 2006. During the year the Local Street Fund has been using grant funds received for the construction of a new industrial park road into the Renaissance Zone. Both street funds have become healthy because the City has not been investing money in street resurfacing projects while the sewer system is being constructed. The intent is to undergo a street resurfacing project that includes both major and local streets in the future, once the sewer project is complete. The City expects the health of the local street fund to improve further no that the State of Michigan allows municipalities to transfer 50 percent of Major Street gas tax monies to the Local Street Fund. The cap had been 25 percent.

The Courthouse Construction Fund increased \$3,369, from \$77,377 on March 31, 2005 to \$80,746 on March 31, 2006. Grant and loan funds have been used to renovate Onaway's historic courthouse. Also, donations received from the public have been and will be used to complete the renovation. The increase comes from donations received during the 2005-06 fiscal year.

Courthouse Debt Fund. In the prior year, voters authorized the City to borrow \$150,000 for the restoration of the historic Onaway Courthouse. That will be repaid over 40 years. This is the second year the City has had the courthouse debt fund. The fund balance of \$14,065 on March 31, 2006 is for the following fiscal year's payment. A total of \$146,000 in principal payments remained as of March 31, 2006.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Sewer Fund. The City was in the process of constructing a sewer system and wastewater treatment plant in 2005-06. The City's net asset balance increased by \$1,271,939, from \$5,402,143 on March 31, 2005 to \$6,674,082 on March 31, 2006. Much of this is due to capital assets consisting mainly of construction in progress. Total construction costs of the sewer system will be approximately \$13.5 million, of which \$11 million is funded through state and federal grants, with the remainder being bonded indebtedness. While the debt is paid with system-generated revenue, some of the operational costs are currently being paid with General Fund monies. This will be the case until construction is complete, and all customers are connected and paying for the service. The General Fund contributed \$40,000 to the sewer fund in 2005-06, down from \$82,000 in 2004-05.

Water Fund. The Water Fund net assets increased \$97,080, from \$708,738 on March 31, 2005 to \$805,818 on March 31, 2006. This is in large part due to grants that allowed for water main construction in the area of the City's Renaissance Zone. The City's cash balance in the water fund decreased in large part due to labor costs associated with the installation of water meters throughout the community and the cost of significant maintenance to the City's water tower.

# **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City Commission reviews its expenditures and compares to the adopted budget to determine if any amendments to the original budget need to be made. During the year, amendments were made to the original adopted budget, though none of those were significant in nature, with the exception of City hall and grounds, which was increased due to increased costs attributed to moving the City's operations into the renovated courthouse.

# CAPITAL ASSET AND DEBT ADMINISTRATION

At March 31, 2006 the City had \$11,480,313 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, equipment, courthouse and sewer construction in progress, and the water system. The most significant addition to City's capital assets was the construction in progress of the historic courthouse and the ongoing construction of the sewer plant. We also purchased a new DPW plow truck for approximately \$106,000, financed through a grant and loan from the United States Department of Agriculture. Please note that additional information can be found on the City's capital assets in the accompanying notes to the financial statements of this report.

At March 31, 2006 the City had total long-term debt outstanding of \$3,021,721. Bonds were issued in the amount of \$1,095,000 for Phase III of the sewer project and \$50,000 for the new DPW plow truck mentioned in the previous paragraph. The City has also reduced previously incurred debt by \$38,462 by making scheduled payments.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City assumed an increase in property tax revenue of three percent, based on past experience of minimal growth. The City assumed that revenue sharing from the state would remain stagnant based on state budget projections. The City expects to contribute additional General Fund dollars to the Sewer Fund as many customers are not yet connected and paying rates, while the plant is in full operation. The City also projects a contribution from the General Fund to the Water Fund, to cover the large cost associated with water meter installations throughout town. It is not projected that water rates will be raised, as the City's rate-payers are receiving a sewer bill for the first time. The goal is to begin charging based on metered usage in 2007-08. Construction of the sewer system is expected to continue through the end of the 2006 construction season. The City anticipates purchasing a new police car, using a grant and General Fund cash on hand and a second DPW plow truck for approximately \$114,000, to be financed by a grant of \$74,500, an installment note for \$27,500, and Motor Vehicle Fund cash on hand. The City also anticipates doing further work on the courthouse, using grant funds and donations on hand. Additionally, the Onaway Area Fire Department has committed to the purchase of a fire truck in the approximate amount of \$134,500.

## CONTACTING CITY MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the City's finances and to demonstrate the City's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the City Manager at 989.733.8313 (City Hall).

Joseph C. Hefele, City Manager

City of Onaway

# BASIC FINANCIAL STATEMENTS



# CITY OF ONAWAY STATEMENT OF NET ASSETS MARCH 31, 2006

#### PRIMARY GOVERNMENT

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
ASSETS	ACTIVITIES	ACTIVITIES	
Cash and cash equivalents	\$470,047	\$102,318	\$572,365
Cash and cash equivalents, restricted	-	10,507	10,507
Investments	158,513	-	158,513
Restricted investments	-	16,500	16,500
Receivables:			
Property taxes	61,731	-	61,731
Accounts	5,763	36,901	42,664
From other governments	32,524	73,393	105,917
Due from fiduciary fund	732	-	732
Financing costs (Net of Accumulated Amortization)	9,658	47,385	57,043
Capital assets (Net of Accumulated Depreciation)	1, <u>562,7</u> 24	9,917,589	11,480,313
TOTAL ASSETS	2,301,692	10,204,593	12,506,285
<u>LIABIL</u> ITIES			
Accounts payable	4,811	75,725	80,536
Accrued interest	4,892	2,967	7,859
Long-term liabilities:			
Due within one year	28,563	37,000	65,563
Due in more than one year	347,158	2,609,000	2,956,158
TOTAL LIABILITIES	385,424	2,724,692	3,110,116
NET ASSETS			
Invested in capital assets, net of related debt	1,187,003	7,271,589	8,458,592
Restricted for debt service	14,065	27,007	41,072
Unrestricted		181,305	896,505
TOTAL NET ASSETS	\$1,916,268	\$7,479,901	\$9,396,169

The accompanying notes are an integral part of these financial statements.

# CITY OF ONAWAY STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2006

Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
\$14.318	<b>\$</b>	s
	· ·	J)
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· ·	•	
	10,572	•
16,039	· <u>-</u>	
554,126	104,557	
423,333	108 443	233,459
135,343	131,588	
558,676	240,031	233,459
\$1,112,802	\$344,588	\$233,459
	\$14,318 246,377 136,986 121,688 18,718 16,039 554,126 423,333 135,343	\$14,318 \$ - 246,377 10,000 136,986 45,965 121,688 48,592 18,718 - 16,039 -  \$554,126 104,557  423,333 108,443 135,343 131,588  \$558,676 240,031

General Revenues
Property taxes
State-shared revenues
Unrestricted interest income
Gain on sale of capital assets
Other
Transfers - internal activities
Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Prior period adjustment

Net assets, beginning of year, as restated

Net assets, end of year

# Net (Expense) Revenue and changes in Net Assets

	and changes in Net Assets				
<del></del>	<u>P</u>	rimary Government	- · · · · · · · · · · · · · · · · · · ·		
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	TOTAL		
<b>s</b> -	(\$14,318)	<b>s</b> -	(\$14,318)		
<b>3</b> -	(236,377)	<u>.</u>	(236,377)		
- -	(91,021)	_	(91,021)		
298,198	225,102	<u>-</u>	225,102		
270,170	(18,718)	_	(18,718)		
- -	(16,039)	<u>-</u>	(16,039)		
298,198	(151,371)	<u> </u>	(151,371)		
1,313,194	-	1,231,763 96,088	1,231,763 96,088		
99,843	· · · · · · · · · · · · · · · · · · ·	70,000	12		
1,413,037		1,327,851	1,327,851		
\$1,711,235	(\$151,371)	<u>\$1,327,851</u>	<u>\$1,176,480</u>		
	268,073	251	268,324		
	232,671	-	232,671		
	6,850	918	7,768		
	125,100	-	125,100		
	7,438	-	7,438		
	(40,000)	40,000			
_	600,132	41,169	641,301		
	448,761	1,369,020	1,817,781		
	1,451,717	6,110,881	7,562,598		
	15,790	<u> </u>	15,790		
<u>-</u> .	1,467,507	6,110,881	7,578,388		
	\$1,916,268	\$7,479,901	\$9,396,169		

# FUND FINANCIAL STATEMENTS

# CITY OF ONAWAY BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

ASSETS	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND
Cash and cash equivalents	\$214,425	\$118,695	\$21,403
Investments	-	-	,
Taxes receivable	59,713	-	-
Accounts receivable	5,763	-	-
Due from other funds	709	-	-
Receivables from other governments	16,195	10,896	5,433
TOTAL ASSETS	\$296,805	\$129,591	\$26,836
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$3,305	\$206	\$255
FUND BALANCES			
Reserved for:			
Courthouse renovation	29,248	_	_
Recreation equipment	1,543	_	_
Police department	4,932	-	_
Promotion	753	-	_
Debt service	-	**	_
Unreserved:			
Designated for:			
Subsequent years' expenditures	-	-	_
Undesignated	<u>257,024</u>	129,385	26,581
TOTAL FUND BALANCES	293,500	129,385	26,581
TOTAL LIABILITIES			
AND FUND BALANCES	<u>\$296,805</u>	\$129,591	\$26,836

ONAWAY AREA FIRE BOARD FUND	COURTHOUSE CONSTRUCTION FUND	COURTHOUSE DEBT FUND	TOTAL GOVERNMENTAL FUNDS
\$12,312	\$80,746	\$12,024	\$459,605
158,513		-	158,513
-	-	2,018	61,731
-	-	-	5,763
-	-	23	732
<u> </u>		<u> </u>	32,524
\$170,825	\$80,746	\$14,065	\$718,868
<u> </u>	<b>\$</b>	<u> </u>	\$3,766
	_	_	29,248
-	_	<u>-</u>	1,543
•	_		4,932
_	_		. 753
-	-	14,065	14,065
			<b>== ==</b>
-	72,500	•	. 72,500
170,825	8,246		592,061
170,825		14,065	<u>715,1</u> 02
	\$80,7 <u>46</u>	\$14,065	\$718,868

## CITY OF ONAWAY BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

Reconciliation of fund balances on the balance sheets for governmental activities to the statement of net assets \$715,102 FUND BALANCES - TOTAL GOVERNMENTAL FUNDS Amounts reported for governmental activities in the statement of net assets are different because: Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,593,951 Add: capital assets (142,784)Subtract: accumulated depreciation Deferred costs used in governmental activities are not financial resources and, therefore, are not reported in the funds. 8,338 Add: financing costs (278)Subtract: accumulated amortization Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal 72,296 fund are included in governmental activities in the statement of net assets. Certain liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds, and consist of: (273,354)Subtract: bonds payable (52,367)Subtract: compensated absences (4,636)Subtract: accrued interest on long-term liabilities

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$1,916,268

The accompanying notes are an integral part of these financial statements.

# CITY OF ONAWAY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND
REVENUES		FUND	_ FUND
Taxes	\$259,357	<b>s</b> -	<b>s</b> -
Federal revenues	60,000		57,054
State-shared revenues	141,304	59,441	31,926
Licenses and permits	1,700	-	51,720
Charges for services	46,892	-	
Fines and forfeits	1,684	-	
Interest income	1,283	697	204
Rents	10,000	-	207
Donations	7,825	-	_
Sale of capital assets	125,100	-	_
Other	7,438	<u> </u>	<del></del> -
TOTAL REVENUES	662,583	60,138	89,184
EXPENDITURES			
Current:			
Legislative	14,318	_	
General government	221,212	_	-
Public safety	97,834	_	-
Public works	57,077	26,077	98,270
Recreation and culture	20,149	20,077	90,2/0
Capital outlay	218,945		-
Deht service:	== <b>-,=</b>	_	-
Principal	-	_	7,000
Interest and fees	<u>.</u>		1,913
TOTAL EXPENDITURES	629,535	26,077	107,183
REVENUES OVER (UNDER) EXPENDITURES	33,048	34,061	(17,999)
OTHER FINANCING SOURCES			
Operating transfers in	-	-	14,886
Operating transfers (out)	(43,067)	(14,886)	
TOTAL OTHER FINANCING SOURCES (USES)	(43,067)	(14,886)	14,886
NET CHANGES IN FUND BALANCES	(10,019)		(3,113)
FUND BALANCES, BEGINNING OF YEAR,	287,729	110,210	29,694
PRIOR PERIOD ADJUSTMENT	15,790		<b>_</b>
FUND BALANCES, END OF YEAR	\$293,500	\$129,385	\$26,581

ONAWAY AREA FIRE BOARDFUND	COURTHOUSE CONSTRUCTION FUND	COURTHOUSE DEBT FUND	TOTAL GOVERNMENTAL FUNDS
<b>s</b> -	<b>s</b> -	\$8,716	\$268,073
2,316	112,253	· -	231,623
2,310	-	_	232,671
_	-	-	1,700
44,281	-	-	91,173
44,201	-	-	1,684
3,145	1,442	49	6,820
5,145	-, -	-	10,000
_	750	-	8,575
_		=	125,100
		· · ·	\$7,438
49,742	114,445	8,765	984,857
	_	_	14,318
-	_	_	221,212
25,735	_	-	123,569
23,133	_	-	181,424
_	_	-	20,149
4,633	114,143	-	337,721
15,262	_	2,000	24,262
7,334	<u> </u>	6,418	15,665
52,964	114,143	8,418	938,320
(3,222)	302	347	46,537
	. 3,067		- 17,953
		<u> </u>	(57,953
	3,067		- (40,000
(3,222	3,369	347	6,537
174,047	77,377	13,718	692,775
	•	<u> </u>	- 15,790
\$17 <u>0,82</u> 5	\$80,746	\$14,065	\$715,102

# CITY OF ONAWAY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities \$6,537 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS Amounts reported for governmental activities in the statement of activities are different because: Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities. Add: capital outlay capitalized during the current year: 337,721 General capital assets 57,052 Infrastructure included as public works expenditures (33,764)Subtract: depreciation expense Governmental funds report deferred costs, such as finacing costs, as expenditures. However, those costs are allocated over the related debt repayment period as annual amortization expense in the statement of activities. (278)Subtract: amortization expense Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 24,262 Add: principal payments on long-term liabilities Some expenses in the statement of activities do not require the use of current finanical resources and therefore are not reported as expenditures in governmental funds. 255 Add: decrease in the accrual of interest on bonds. (10,248)Subtract: increase in the accrual of compensated absences. Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal 9,545 service fund is reported with governmental activities. 30 Add: interest revenue from governmental internal service fund 58,000 Add: grant revenue from governmental internal service fund Subtract: interest expense from governmental internal service fund (351)\$448,761 CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

#### CITY OF ONAWAY PROPRIETARY FUNDS STATEMENT OF NET ASSETS MARCH 31, 2006

ASSETS	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CURRENT ASSETS:				
Cash and cash equivalents	\$88,495	\$13,823	\$102,318	\$10,442
Cash and cash equivalents, restricted	-	10,507	10,507	-
Restricted investments	-	16,500	16,500	<del>-</del>
Accounts receivable	19,612	17,289	36,901 73,393	-
Receivable from other governments	73,142	251	73,393	·
TOTAL CURRENT ASSETS	181,249	58,370	239,619	10,442
NONCURRENT ASSETS:				
Financing costs (net of amortization)	47,385	<b>-</b>	47,385	1,598
CAPITAL ASSETS:				
Land and improvements	13,960	6,614	20,574	-
Water system	-	1,074,284	1,074,284	-
Water system - construction in progress	-	243,078	243,078	-
Sewer system	6,749,535	-	6,749,535	•
Sewer system - construction in progress	2,335,810	-	2,335,810	- 117 797
Machinery and equipment	20,532	10,174	30,706	317,787
Less: accumulated depreciation	(47,344)	(489,054)	(536,398)	(206,230)
NET CAPITAL ASSETS	9,072,493	845,096	9,917,589	111,557
TOTAL NONCURRENT ASSETS	9,119,878	845,096	9,964,974	113,155
TOTAL ASSETS	9,301,127	903,466	10,204,593	123,597
LIABILITIES A <u>ND NE</u> T ASS <u>ETS</u>				
CURRENT LIABILITIES:				
Accounts payable	73,252	2,473	75,725	1,045
Accrued interest	1,792	1,175	2,967	256
Bonds payable	25,000	12,000	37,000	-
Installment note payable				2,500
TOTAL CURRENT LIABILITIES	100,044	15,648	115,692	3,801
LONG-TERM LIABILITIES:				
Bonds payable	2,527,000	82,000	2,609,000	45.500
Installment note payable				47,500
TOTAL LONG-TERM LIABILITIES	2,527,000	82,000	2,609,000	47,500
TOTAL LIABILITIES	2,627,044	97,648	2,724,692	51,301
NET ASSETS:				
Invested in capital assets, net of related debt	6,520,493	751,096	7,271,589	61,557
Restricted for debt service	-	27,007	27,007	-
Unrestricted	153,590	27,715	181,305	10,739
TOTAL NET ASSETS	<u>\$6,674,083</u>	\$805,818	\$7,479,901	\$72,296

# CITY OF ONAWAY PROPRIETARY FUNDS STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31, 2006

	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
OPERATING REVENUES				
Charges for services	\$108,443	\$131,342	\$239,785	\$53,254
Other revenue	·	246	246	<u>-</u>
TOTAL OPERATING REVENUES	108,443	131,588	240,031	53,254
OPERATING EXPENSES				
Salaries and wages	17,797	40,194	57,991	5,541
Fringe benefits	7,854	12,155	20,009	3,809
Gasoline	-	-		3,164
Supplies	9,826	3,742	13,568	6,442
Contracted service	58,914	9,158	68,072	1,693
Maintenance/repairs	<b>-</b>	-	-	5,765
Communication	1,093	743	1,836	971
Transportation	1,584	76	1,660	265
Utilities	33,692	23,846	57,538	8,229
Education and training	225	555	780	56
Insurance	4,951	737	5,688	4,190
Other	-	1,038	1,038	•
Equipment rentals	1,293	13,514	14,807	2.504
Depreciation and amortization	49,061	23,160	72,221	3,584
TOTAL OPERATING EXPENSES	186,290	128,918	315,208	43,709
OPERATING INCOME (LOSS)	(77,847)	2,670	(75,177)	9,545
NON-OPERATING REVENUES (EXPENSES)				
Interest income	177	741	918	30
Special assessments	-	251	251	-
Federal revenue	1,313,194	99,843	1,413,037	58,000
State revenue	219,178	-	219,178	•
Other grant revenue	14,281	-	14,281	•
Other contracted service	(233,459)	- (C. 105)	(233,459)	
Interest expense	(3,584)	(6,425)	(10,009)	(351)
TOTAL NON-OPERATING INCOME				
(EXPENSES) - NET	1,309,787	94,410	1,404,197	57,679
INCOME (LOSS) BEFORE TRANSFERS	1,231,940	97,080	1,329,020	67,224
TRANSFER IN	40,000	<del>-</del>	40,000	<u> </u>
CHANGE IN NET ASSETS	1,271,940	97,080	1,369,020	67,224
NET ASSETS, BEGINNING OF YEAR	5,402,143	708,738	6,110,881	5,072
NET ASSETS, END OF YEAR	\$6,674,083	\$805,818	\$7,479,901	\$72,296

#### PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2006

	SEWER FUND		WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES			<del></del>		,
Receipts from customers	599	9,796	\$143,570	\$243,366	\$53,254
Other receipts		->	246	246	
Cash paid for employees wages and benefits		5,474)	(52,349)	(77,823)	(9,261)
Cash paid for other operating expenses	(104	4,311)	(51,142)	(155,453)	(29,818)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(2	9,989)	40,325	10,336	14,175
CASH FLOWS FROM CAPITAL AND					
RELATED FINANCING ACTIVITIES			(0.00	1 120 8/8	FD 000
Federal revenue	· ·	9,529	69,236	1,138,765	58,000
Deht proceeds		5,000 0.345	(154 (30)	1,095,000	50,000
Acquisition and construction of capital assets		9,345) 7,500)	(154,639)	(2,543,984)	(106,979) (1,598)
Payment of finance costs  Principal and interest paid on capital debt		7,500) 1,792)	(16,250)	(17,500) (18,042)	(3,296)
•					
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	(24	4,108)	(101,653)	(345,761)	(3,873)
CASH FLOWS FROM NON-CAPITAL AND					
RELATED FINANCING ACTIVITIES					
State revenue	21	8,928	-	218,928	•
Other grant revenue		4,281	-	14,281	-
Other non-capital contracted services	· · · · · · · · · · · · · · · · · · ·	3,209)	•	(233,209) 40,000	-
Transfer in	4	0, <u>000</u>	<del>-</del> .	40,000	
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	4	0,000		40,000	
CASH FLOWS FROM INVESTING ACTIVITIES Interest income		177	741	918	30
NET INCREASE (DECREASE) IN CASH AND	(21	2 020)	// 0 EPT)	(294,507)	10,332
CASH EQUIVALENTS	(23	3,920)	(60,587)	(294,307)	10,532
CASH AND CASH EQUIVALENTS:					
BEGINNING OF YEAR		2,415	84,917	407,332	110
END OF YEAR		8,495	\$24,330	\$112,825	\$10,442
BALANCE SHEET CLASSIFICATION OF					
CASH AND CASH EQUIVALENTS:					
Cash and cash equavalents	\$8	8,495	\$13,823	\$102,318	\$10,442
Restricted cash and cash equavalents		. <b>-</b>	10,507	10,507	
TOTAL.		8,495	\$24,330	\$112,825	\$10,442
RECONCILIATION OF OPERATING LOSS TO					
NET CASH FROM OPERATING ACTIVITIES			_		
Operating income (loss)	(\$7	7,847)	\$2,670	(\$75,177)	\$9,545
Adjustments to reconcile operating Income (loss)					
to net cash from operating activities:	,	10.04	22.1/0	#2 221	1.504
Depreciation and amortization	4	19,061	23,160	72,221	3,584
Changes in assets and liabilities:		(8 647)	12,228	3,581	_
Receivables		(8,647) 7,267	12,220	7,267	-
Accounts payable Accrued expenses		177	2,267	2,444	1,046
-	<del></del>				
NET CASH PROVIDED (USED)	em d	ነል በዋልነ	£40.13£	£10.11/	614175
BY OPERATING ACTIVITIES		29,989)	\$40,325	\$10,336	\$14,175

# CITY OF ONAWAY STATEMENT OF FIDUCIARY NET ASSETS TAX COLLECTION FUND MARCH 31, 2006

	AGENCY FUND
ASSETS	
Cash and cash equivalents	<u>\$1,766</u>
<u>LIABILITIES</u>	
Due to other funds	\$732
Due to other governmental units	1,034
TOTAL LIABILITIES	1,766
NET ASSETS	
Fiduciary Net Assets	<u> </u>

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Onaway, Onaway, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

## THE REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the City and any component units. The basic criterion for determining the reporting entity includes oversight responsibility, ability to significantly influence operations, fiscal dependency, and whether the financial statements would be misleading if data were not included. The component units discussed below are included in the City's reporting entity.

Based on the foregoing criteria, including the consideration of the significance of their operational or financial relationship with the City, the financial statements of the Onaway Area Fire Board is included in the City's annual report as a blended component unit because the City is the largest member of the Joint Venture. The City has no discretely presented component units.

# GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

# Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures. The City considers all of its funds to be major funds.

# MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

#### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

# MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

## Fund Financial Statements

The fund financial statements provide information about the City's funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The City considers all of its funds to be major funds, therefore, there are no nonmajor funds.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Major Street Fund - This special revenue fund accounts for revenues from motor fuel taxes, which are restricted by state statute for major street and highway purposes.

Local Street Fund - This special revenue fund accounts for revenues from motor fuel taxes and a tax, when levied, which are restricted by state statute for local street purposes.

Onaway Area Fire Board Fund - This special revenue fund accounts for the blended component unit fire protection services of the Onaway Area Fire Board. Revenues are derived mainly from contributions from the participating local units of government and contributions from the general public.

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fund Financial Statements (Continued)

Courthouse Debt Fund - This debt service fund is used to account for the tax revenues and the payments on the bonds of the Courthouse/City Hall.

Courthouse Construction Fund - This capital projects fund is used to account for the construction and restoration of the Courthouse/City Hall, financed primarily by bonded indebtedness.

The City reports the following major enterprise funds:

**Sewer Fund** – This fund accounts for the activities of the sewer department system, which is primarily under construction. This fund is financed primarily by user fees.

Water Fund – This fund accounts for the activities of the water department system. This fund is financed primarily by user fees.

Additionally the City of Onaway reports the following fund types:

**Internal Service Fund** – This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

#### Fiduciary Funds

**Tax Collection Fund** – This fund accounts for assets held for other governments in an agency capacity. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

#### **INVESTMENTS**

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

#### RESTRICTED ASSETS

Certain resources are set aside for repayment of the City's sewer and water revenue bonds and unspent grant funds. The amounts are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants and/or other agreements.

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) RECEIVABLES AND PAYABLES

All receivables are reported at their gross values. The City does not use an allowance for doubtful accounts. Uncollected delinquent taxes and water and sewer accounts receivable are purchased by the County and placed on the taxpayer/customer's tax bill and management considers them to be fully collectible. Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables from other governments represents various shared revenues, grants, and reimbursements from other governments.

#### PROPERTY TAX REVENUE RECOGNITION

Property tax revenues for the year ended March 31, 2006, reflected in the accompanying financial statements include property taxes levied December 31, 2005. These taxes are due by February 15, 2006, and are added to the County tax rolls after February 28, 2006. The City will receive 100% payment for the delinquent City tax by June, 2006.

The taxable value of the City totaled \$13,978,226, on which ad valorem taxes consisted of 18.7503 mills for the City's operating purposes and .649 mills for debt retirement, raising \$259,357 for operating purposes and \$8,716 for courthouse bond debt retirement. Property taxes are recognized in the fiscal year in which they are levied.

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are defined by the government as assets with an approximate initial individual cost of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Interest expense incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year ended March 31, 2006, \$33,049 of interest expense was capitalized as part of the cost of the sewer system assets under construction.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10-40 years
Equipment and vehicles	5-20 years
Water and sewer systems	40 - 50 years
Infrastructure	20 years

#### **COMPENSATED ABSENCES**

It is the City's policy to permit employees to accumulated earned but unused sick time benefits, subject to certain limitations. All sick time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations or retirements.

#### POST-EMPLOYMENT BENEFITS

Other than the pension benefits described in Note 8, the City does not provide its employees with any other post employment benefits.

#### LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) FUND EQUITY

Reserved fund balances for governmental funds indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the City has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

#### **ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### **Budgets and budgetary accounting**

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing on April 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4. Budgeted amounts are as originally adopted, or as amended by the City Commission. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at the end of the fiscal year.

The City Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

#### Excess of expenditures over appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City for the budgetary funds were adopted to the functional level. During the year ended March 31, 2006 the General Fund expenditures exceeded appropriations by \$5,145 and the Onaway Area Fire Department Fund exceeded appropriations by \$141.

### NOTES TO FINANCIAL STATEMENTS

# NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

### **Bond reserve requirements**

The City has not provided for the funding of the Bond Retirement Reserve account for the Sewer Fund as of March 31, 2006. Revenue Bond Ordinances Nos. 2002-05, 2003-02 and 2005-01 requires the sum of \$15,110 to be set aside as of March 31, 2006. The City expects to fund the required amounts when the sewer system is completed and becomes fully operational.

# NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

The caption on the statement of net assets and statement of fiduciary net assets relating to cash, cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	\$574,131
Cash and cash equivalents, restricted	10,507
Investments	158,513
Restricted investments	16,500
	\$759,651

The investments and restricted investments amounts consist of certificates of deposit with over a 90 day maturity.

<u>Custodial Credit Risk – Deposits:</u> At year-end the carrying amounts of cash, cash equivalents and investments were classified as to risk as follows:

	Carrying	Bank
	Amount	Balance
Insured (FDIC)	\$213,225	\$263,150
Uninsured – uncollateralized	546,426	582,434
	\$759,651	\$845,584

All accounts are in the name of the City and a specific fund. They are recorded in City records at cost. Interest is recorded when deposits mature or is credited to the applicable account. The City may experience significant fluctuations in deposit balances through the year.

<u>Concentration of Credit Risk:</u> The City's policy does not quantify the limit on the amount it may invest in any one issuer.

<u>Interest Rate Risk:</u> The City's policy does not limit investor maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### **NOTES TO FINANCIAL STATEMENTS**

# NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

## **Statutory Authority**

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

### NOTE 4: CAPITAL ASSETS

Capital asset activity was as follows for the year ended March 31, 2006:

Governmental Activities:	Beginning Balance	Additions	(Deletions)	Ending Balance
Not being depreciated:				
Construction in				
Progress	\$811,312	\$ -	(\$811,312)	\$ -
Infrastructure	81,852	57,052	-	138.904
Being depreciated:				
Buildings	196,794	1,137,907	-	1,334,701
Vehicles-police	36,969	-	-	36,969
Equipment-furniture				
and office	=	6,493		6,493
Equipment – fire	72,251	4,633	-	76,884
Equipment-vehicles				
and machinery	249,009	106,979	(38,201)	317,787
Subtotal	1,448,187	1,313,064	(849,513)	1,911,738
Less accumulated				
depreciation	(349,867)	(37,348)	38,201	(349,014)
Governmental activities capital assets, net	\$1,098,320	\$1,275,716	(\$811,312)	\$1,562,724

# NOTES TO FINANCIAL STATEMENTS

# NOTE 4: CAPITAL ASSETS (CONTINUED)

Business-type Activities:	Beginning Balance	Additions	(Deletions)	Ending Balance
Not being depreciated:				
Land Construction in	\$20,574	\$ -	\$ -	\$20,574
Progress-water Construction in	143,238	99,840	-	243,078
Progress-sewer	6,749,535	2,335,810	(6,749,535)	2,335,810
Being depreciated: Water system	1,038,110	36,174	-	1,074,284
Sewer system	-	6,749,535		6,749535
Water equipment	12,334	-	(2,160)	10,174
Sewer equipment		20,532		20,532
Subtotal	7,963,791	9,241,891	(6,751,695)	10,453,987
Less accumulated depreciation	(468,055)	(70,503)	2,160	(536,398)
-	(,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	(10,000)		(223,272)
Business –type activities capital assets, net	\$7,495,736	\$9,171,388	(\$6,749,535)	\$9,917,589
Depreciation was charge	d to the City's g	overnmental a	ctivities as follo	ws:
General government			\$22,791	
Public safety			10,973	
Capital assets held by the Internal service fund are Various functions based	charged to the			
Of the assets.			3,584	
			\$37,348	
Depreciation was charge	d to the City's E	Business-type a	ctivities as follo	ows:
Water			\$47,343	
Sewer			23,160	
			\$70,503	

### NOTES TO FINANCIAL STATEMENTS

# NOTE 5: INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The amounts of interfund receivables and payables in the governmental activities as follows:

Fund	Interfund Receivable	Interfund Payable
General fund Fiduciary fund – Tax Collection	\$732 	\$ - 732
Total	\$732	\$732

Interfund transfers consisted of the following for the year ended March 31, 2006:

Fund	Transfer Out	Transfer In
General	\$43,067	\$ -
Special Revenue-Major Street	14,886	-
Special Revenue-Local Street		14,886
Courthouse Construction Fund		3,067
Sewer Fund		40,000
Total	\$57,953	\$57,953

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) use unrestricted resources collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### NOTE 6: LONG-TERM DEBT

A summary of long term obligations at March 31, 2006, and transactions related thereto for the year then ended is as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental activities:					
\$150,000 U.S.D.A. 2004 general obligation unlimited tax bonds for construction of courthouse building, payable in annual installments of \$2,000 to \$8,000, bearing interest semi-annually at 4.375% through September, 2032.	\$148,000	\$	- (\$2,000)	\$146,000	\$2,000

# NOTES TO FINANCIAL STATEMENTS

# NOTE 6: LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
1992 Michigan Transportation Bonds. The bonds are dated September 1, 1992, are payable serially beginning March 1, 1993 and bear interest from 4.0% to 6.0%.	\$15,000	\$ -	(\$7,000)	\$8,000	\$8,000
Act 99 installment contract payable – Fire equipment annual payments of \$5,491, including interest at 4.68%.	10,255	-	(5,009)	5,246	5,246
Act 99 installment contract payable – Fire Station Facility, annual payments of \$17,105, including interest at 5.51% through September 15, 2007.	124,361	_	(10,253)	114,108	10,817
Internal Service Fund: Act 99 installment contract payable – Kubota Tractor, annual payments of \$3,200, plus interest at 2.96%, through December, 2005.	3,200	-	(3,200)	-	-
Internal Service Fund: U.S.D.A. Act 99 installment contract payable, plow truck— annual payments ranging from \$2,500 to \$4,500, plus interest at 4.125%, through February, 2021.	_	50,000	-	50,000	2,500
Liability for accrued compensated absences	42,119	10,248		52,367	_
Total governmental activities long-term debt	342,935	60,248	(27,462)	375,721	28,563
Business-type activities:					
Enterprise Funds: 1974 U.S.D.A. Water Revenue Bonds, due in annual installments ranging from \$5,000 to \$15,000 each January I through 2013; bearing interest at 5%.	105,000	-	(11,000)	94,000	12,000
\$1,125,000 U.S.D.A. Sewer System Revenue Bonds, Series A, due in annual installments ranging from \$12,000 to \$56,000 each April 1 and October I through 2042;	1 112 000			1 112 000	12 000
bearing interest at 4.50%.	1,113,000	-	-	1,113,000	12,000

### **NOTES TO FINANCIAL STATEMENTS**

# NOTE 6: LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
\$84,000 Sewer System Revenue Bonds, Series B, due in annual installments ranging from \$4,000 to \$12,000 each April I and October 1 through 2011; bearing interest at 5.60%.	\$64,000	\$ -	\$ -	\$64,000	\$10,000
\$283,000 U.S.D.A.Sewer System Revenue Bonds, Series C, due in annual installments ranging from \$3,000 to \$16,500 each April 1 and October 1 through 2042; bearing interest at 4.50%.	280,000	-	_	280,000	3,000
\$1,095000 U.S.D.A.Sewer System Revenue Bonds, Series D, due in annual installments ranging from \$11,000 to \$62,000 each April 1 and October 1 through 2045; bearing interest at 4.125%.		1,095000	<u>.</u>	1,095,000	_
Total business-type activities long-term debt	1,562,000	1,095,000	(11,000)	2,646,000	37,000
Total long-term debt	\$1,904,935	\$1,155,248	<u>(\$38,462)</u> :	\$3,021,721	\$65,563

Annual debt service requirements for the above obligations, except for the liability for accrued compensated absences, as follows:

Year Ended March 31,	Govermental Principal	Activities Interest	Business-type Principal	Activities Interest
2007	\$28,563	\$15,337	\$37,000	\$111,949
2008	15,914	13,907	38,000	113,663
2009	17,543	13,066	50,500	111,545
2010	18,206	12,168	53,500	109,095
2011	19,406	11,233	56,500	106,474
2012-2016	88,222	48,195	216,000	497,365
2017-2021	46,500	24,915	219,000	452,213
2022-2026	33,000	16,078	272,500	398,966
2027-2031	40,000	7,875	339,500	332,736
2032-2036	16,000	700	423,000	250,149
2037-2041	-	-	526,500	147,238
2041-2046	<u>-</u>	<u>-</u>	414,000	35,584
Total	\$323,354	\$163,474	\$2,646,000	\$2,666,977

Interest expense for the year in the statement of activities, governmental activities, was \$16,039, which includes \$278 of amortization of finance costs. Interest expense for business-type activities was \$10,009. Additionally, interest expense of \$33,049 of was capitalized as part of the cost of the sewer system assets under construction in the business-type activities.

### NOTES TO FINANCIAL STATEMENTS

### NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City has issued revenue bonds to finance construction of two enterprise funds, which provide water services and, when completed, sewer services. Because both of these individual funds account separately for each activity, are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

# NOTE 8: PENSION PLAN

Plan description. The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City, administered by the MERS Retirement Board. Act No. 427 of Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at Municipal Employees Retirement System, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy. The obligation to contribute to and maintain the system for the City employees was established by the City Council. The City is required to contribute at an actuarially determined rate of 10.01% for department heads, of which the City contributes 7.38% and the department heads contribute 2.63%; and 9.99% for the department of public works employees of which the City contributes 5.99% and the public works employees contribute 4.00%. The contribution requirements of plan members and the City are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Annual Pension Cost. For the year ended March 31, 2006 the City's annual pension cost of \$13,484 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 8% investment rate of return, and (b) projected salary increases of 4.5%, compounded annually, attributable to inflation. The actuarial value of assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the last actuarial valuation, was 30 years.

### NOTES TO FINANCIAL STATEMENTS

# NOTE 8: PENSION PLAN (CONTINUED)

Three-year trend information and funding progress, as follows:

	Year-ended 2003	December 2004	31, 20 <u>05</u>
Annual pension cost (APC) Percentage of APC contributed Net pension obligation Actuarial value of assets Actuarial Accrued Liability (AAL) Unfunded (Excess) AAL Funded ratio Covered payroll	\$ 7,962 100% \$ - \$318,486 \$329,088 \$10,602 97% \$170,347	\$ 12,969 100% \$ - \$344,865 \$349,632 \$ 4,767 99 \$172,927	\$387,238 \$10,469 97%
UAAL (Excess) as a percentage of covered payroll	6%	3%	5%

### NOTE 9: AMBULANCE SERVICE

The City has entered into an agreement with ten area units of government to provide ambulance service to local residents. The expenses involved in overall operations of the ambulance service are split equally between the nine units, and the expenses associated with ambulance runs within a governmental jurisdiction are absorbed by that governmental unit. For the year ended March 31, 2006, the City's share of expenditures was \$14,768. Financial statements can be obtained through the Onaway Area Ambulance Service at P.O. Box 454, Onaway, MI 49765.

### NOTE 10: FIRE SERVICE

The City has entered into an agreement with two local townships to form an Onaway Area Fire Board to provide fire service to local residents. All expenses are charged to the Fire Board to the participating units according to a formula based on comparative SEV and population. Long-term debt incurred to purchase a new fire station facility is shown in long-term debt (Note 6). For the year ended March 31, 2006, the City's share of expenditures was \$15,822. The Onaway Area Fire Board does not issue separate financial statements.

### NOTE 11: COMMITMENTS

The City has approximately \$2,800,000 remaining on a grant and construction contracts to finish construction of Phase III of a wastewater treatment plant.

The Onaway Area Fire Department has entered into a contract to purchase a new fire truck for the approximate amount of \$137,500.

#### NOTES TO FINANCIAL STATEMENTS

#### NOTE 12: CONTINGENCIES

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

### NOTE 13: RISK MANAGEMENT

The City of Onaway participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the City. The City pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan. The City carries coverage for general liability, wrongful acts, law enforcement, automobile, crime, inland marine liability and bonding for public officials errors and omissions. Additionally, the City has purchased commercial insurance for workman's compensation benefits. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

### NOTE 14: LEASING ARRANGEMENTS

The City leases space to both a public library and the local chamber of commerce. Leases are renewable annually and require no security deposit. Future minimum lease payments on these leases are \$10,000, annually.

### NOTE 15: PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$15,790 was made to increase both the General Fund's beginning fund balance and the statement of net assets, beginning net assets, to properly reflect state-shared revenues in the correct period.

The effects on the General Fund fund balance, as follows:

Fund balance, beginning of year, as previously stated	\$287,729
Prior period adjustment, state shared revenue	15,790
Fund balance, beginning of year, as restated	\$303,519
The effects on the beginning net assets, as follows:	
Net assets, beginning of year, as previously stated Prior period adjustment, state shared revenue	\$1,451,717 15,790
Net assets, beginning of year, as restated	\$1,467,507

# REQUIRED SUPPLEMENTARY INFORMATION

### CITY OF ONAWAY BUDGETARY COMPARISON SCHEDULE -GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACT <u>UAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				\$357
Taxes	\$259,000	\$259,000	\$259,357	3351
Federal revenues	60,000	60,000	60,000	10,354
State-shared revenues	130,950	130,950	141,304 1,700	400
Licenses and permits	1,300	1,300	46,892	(2,508)
Charges for services	49,400	49,400 1,200	1,684	484
Fines and forfeits	1,200 500	500	1,283	783
Interest income	9,840	9,840	10,000	160
Rents	5,000	8,000	7,825	(175)
Donations	125,000	125,000	125,100	100
Sale of capital assets	2,500	2,500	7,438	4,938
Other				
TOTAL REVENUES	644,690	647,690	662,583	14,893
EXPENDITURES:	14,307	15,507	14,318	1,189
LEGISLATIVE - City Council	14,507	13,50		
GENERAL GOVERNMENT		407 =40	105,025	1,495
City Administrator	110,520	106,520	1,877	623
Elections	2,500	2,500	6,957	143
Assessor	7,100	7,100	18,007	578
Professional services	19,885	18,585 1,282	1,247	35
Board of review	1,262	66,109	65,474	635
City hall and grounds	38,409 9,930	6,630	4,611	2,019
Cemetery Promotion		19,441	18,014	1,427
TOTAL GENERAL GOVERNMENT	205,047	228,167	221,212	6,9 <u>55</u>
PUBLIC SAFETY			(7.24	5,731
Police Department	72,975	72,975	67,244	428
Fire	16,250	16,250	15,822 14,768	32
Ambulance	14,800	14,800		
TOTAL PUBLIC SAFETY	104,025	104,025	97,834	6,191
PUBLIC WORKS	2.247	3,647	3,181	466
Sidewalks	3,347 15,000	15,000	12,844	2,156
Street lighting	40,000	41,100	41,052	
Sanitation			57,077	
TOTAL PUBLIC WORKS	<u>58,347</u>	59,747		
RECREATION AND CULTURE-PARKS		21,806	20,149	
CAPITAL OUTLAY	190,000	213,800	218,945	(5,145)
TOTAL EXPENDITURES	595,532	643,052	629,535	13,517
REVENUES OVER (UNDER) EXPENDITURES	49,158	4,638	33,048	28,410
OTHER FINANCING SOURCES (USES) Operating transfers (out)	(94,000)	(93,748)	(43,067	50,681
NET CHANGE IN FUND BALANCE	(44,842)	(89,110)	(10,019	79,091
FUND BALANCE, BEGINNING OF YEAR,	287,729	287,729	287,729	
PRIOR PERIOD ADJUSTMENT	15,790	15,790	15,790	<u> </u>
FUND BALANCE, END OF YEAR	\$258,677	\$214,409	<b>\$293,500</b>	\$79 <u>,091</u>

# CITY OF ONAWAY BUDGETARY COMPARISON SCHEDULE MAJOR STREET FUND FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
State-shared revenue	\$62,000	\$62,000	\$59,441	(\$2,559)
Interest income	500	500	697	197
TOTAL REVENUES	62,500	62,500	60,138	(2,362)
EXPENDITURES:				
Public works - Highways and Streets: Street construction	-	-	-	-
Routine maintenance	13,014	12,514	8,046	4,468
Traffic services	2,089	2,089	348	1,741
Winter maintenance	11,692	12,192	11,729	463
Administration	6,200	6,200	5,954	246
TOTAL EXPENDITURES	32,995	32,995	26,077	6,918
REVENUES OVER (UNDER) EXPENDITURES	29,505	29,505	34,061	4,556
OTHER FINANCING (USES)				
Operating transfer (out)	(15,500)	(15,500)	(14,886)	614
NET CHANGE IN FUND BALANCE	14,005	14,005	19,175	5,170
FUND BALANCE, BEGINNING OF YEAR	110,210	110,210	110,210	<del>_</del>
FUND BALANCE, END OF YEAR	\$124,215	\$124,21 <u>5</u>	\$129,385	\$5,170

# CITY OF ONAWAY BUDGETARY COMPARISON SCHEDULE LOCAL STREET FUND FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:	<b>#</b> 50.000	#E0 000	SET DEA	\$7,054
Federal revenue	\$50,000	\$50,000	\$57,054	•
State-shared revenue	32,000	32,000	31,926	(74)
Interest income	200	200	204	4
TOTAL REVENUES	82,200	82,200	89,184	6,984
EXPENDITURES:				
Public works - Highways and Streets:				
Street construction	50,000	57,600	57,052	548
Routine maintenance	17,990	13,690	13,670	20
Traffic services	1,589	1,089	551	538
Winter maintenance	15,768	23,868	23,799	69
Administration	-	3,200	3,198	2
Debt Service:				
Principal	7,000	7,000	7,000	-
Interest and paying agent fecs	2,000	2,000	1,913	87
TOTAL EXPENDITURES	94,347	108,447	107,183	1,264
REVENUES OVER (UNDER) EXPENDITURES	(12,147)	(26,247)	(17,999)	8,248
OTHER FINANCING SOURCES				
Operating transfer in	15,500	15,500	14,886	(614)
NET CHANGE IN FUND BALANCE	3,353	(10,747)	(3,113)	7,634
FUND BALANCE, BEGINNING OF YEAR	29,694	29,694	29,694	-
FUND BALANCE, END OF YEAR	\$33,047	\$18,947	\$26,581	\$7,634

# CITY OF ONAWAY BUDGETARY COMPARISON SCHEDULE ONAWAY AREA FIRE BOARD FUND FOR THE YEAR ENDED MARCH 31, 2006

	ORIGINAL B <u>UDGE</u> T	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Charges for services	\$41,275	\$43,271	\$44,281	\$1,010
Federal revenue	-	2,800	2,316	(484)
Interest income		500	3,145	2,645
TOTAL REVENUES	41,275	46,571	49,742	3,171
EXPENDITURES:				
Current:				
Public safety	20,822	24,625	25,735	(1,110)
Capital outlay	3,347	5,600	4,633	967
Debt Service:				
Principal	17,106	17,106	15,262	1,844
Interest expense	<u> </u>	5,492	7,334	(1,842)
TOTAL EXPENDITURES	41,275	52,823	52,964	(141)
NET CHANGE IN FUND BALANCE	-	-	(3,222)	3,030
FUND BALANCE, BEGINNING OF YEAR	174,047	174,047	174,047	
FUND BALANCE, END OF YEAR	\$174,047	\$174,047	\$170,825	\$3,030

# OTHER SUPPLEMENTARY INFORMATION

# CITY OF ONAWAY SCHEDULE OF BONDED INDEBTEDNESS MARCH 31, 2006

GOVERNMENTAL ACTIVITIES:	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
1992 Michigan Transportation Fund Bonds			
Payments due:			
September 1 and March 1	0/01/00		
September 1 and March 1	9/01/92	\$76,000	6.00% 6.00
TOTAL 1992 MICHIGAN TRANSPORTATION FUND BOY	NDS		
2004 Courthouse General Obligation Bonds			
Payments due:			
September 1 and March 1	6/15/04	\$150,000	4 27F0/
		\$130,000	4.375%
			4.375 4.375
			4.375
			4.375 4.375
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			4.375
			4.375
			4.375
			6.00

TOTAL 2004 COURTHOUSE GENERAL OBLIGATION BONDS

TOTAL GOVERNMENTAL ACTIVITIES BONDED INDEBTEDNESS:

(Continued)

AMOUNT OF ANNUAL MATURITY

DATE OF

MATURITY

AMOUNT OUTSTANDING MARCH 31, 2006

\$154<u>,000</u>

\$	\$7,000	3/01/06
	8,000	3/01/07
8,0		
\$	\$2,000	9/01/05
2,0	2,000	9/01/06
2,0	2,000	9/01/07
3,0	3,000	9/01/08
3,0	3,000	9/01/09
3,0	3,000	9/01/10
3,0	3,000	9/01/11
4,0	4,000	9/01/12
4,0	4,000	9/01/13
4,0	4,000	9/01/14
4,0	4,000	9/01/15
5,0	5,000	9/01/16
5,0	5,000	9/01/17
5,0	5,000	9/01/18
5,0	5,000	9/01/19
5,0	5,000	9/01/20
6,0	6,000	9/01/21
6,0	6,000	9/01/22
6,0	6,000	9/01/23
7,0	7,000	9/01/24
8,0	8,000	9/01/25
8,6	8,000	9/01/26
8,0	8,000	9/01/27
8,0	8,000	9/01/28
8,0	8,000	9/01/29
8,0	8,000	9/01/30
8,0	8,000	9/01/31
<b>8,</b> i	8,000	9/01/32
146,		

# CITY OF ONAWAY SCHEDULE OF BONDED INDEBTEDNESS MARCH 31, 2006

BUSINESS-TYPE ACTIVITIES: 1974 Water Revenue Bonds Payments due:	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
January 1 and July 1	1/07/74	\$275,000	5.0%
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
TOTAL WATER REVENUE BONDED INDEBTEDNE	ess		
2003 Sanitary Sewer System Revenue Bond, Series B Payments due:			
April 1 and October 1	9/16/2002	\$84,000	5.60%
			5.60
			5.60
			5.60
			5.60
			5.60
TOTAL 2003 SANITARY SEWER SYSTEM REVENUE	E BOND, SERIES B		

(Continued)

DATE OF	AMOUNT OF ANNUAL	OUTSTANDING MARCH 31,
MATURITY	MATURITY	2006
1/01/06	\$11,000	<b>\$</b> -
1/01/07	12,000	12,000
1/01/08	12,000	12,000
1/01/09	13,000	13,000
1/01/10	14,000	14,000
1/01/11	14,000	14,000
1/01/12	14,000	14,000
1/01/13	15,000	15,000
		94,000
4/01/06	\$10,000	\$10,000
4/01/07	10,900	10,000
4/01/08	10,000	10,000
4/01/09	10,000	10,000
4/01/10	12,000	12,000
4/01/11	12,000	12,000
		64,000

**AMOUNT** 

# CITY OF ONAWAY SCHEDULE OF BONDED INDEBTEDNESS MARCH 31, 2006

_	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTERESTRATE
BUSINESS-TYPE ACTIVITIES (CONTINUED): 003 Sanitary Sewer System Revenue Bond, Series A Payments due:			
April 1 and October 1	5/6/2003	\$1,125,000	4.50%
		· , ==,•••	4.50
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			4.50

TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES A

(Continued)

AMOUNT OF ANNUAL MATURITY

DATE OF

MATURITY

AMOUNT OUTSTANDING MARCH 31, 2006

1,113,000

4/01/06	\$12,000	\$12,000
4/01/07	13,000	13,000
4/01/08	13,000	13,000
4/01/19	14,000	14,000
4/01/10	15,000	15,000
4/01/11	15,000	15,000
4/01/12	16,000	16,000
4/01/13	17,000	17,000
4/01/14	17,000	17,000
4/01/15	18,000	18,000
4/01/16	19,000	19,000
4/01/17	20,000	20,000
4/01/18	21,000	21,000
4/01/19	22,000	22,000
4/01/20	23,000	23,000
4/01/21	24,000	24,000
4/01/22	25,000	25,000
4/01/23	26,000	26,000
4/01/24	27,000	27,000
4/01/25	28,000	28,000
4/01/26	30,000	30,000
4/01/27	31,000	31,000
4/01/28	32,000	32,000
4/01/29	34,000	34,000
4/01/30	35,000	35,000
4/01/31	37,000	37,000
4/01/32	39,000	39,000
4/01/33	40,000	40,000
4/01/34	42,000	42,000
4/01/35	44,000	44,000
4/01/36	46,000	46,000
4/01/37	48,000	48,000
4/01/38	50,000	50,000
4/01/39	52,000	52,000
4/01/40	55,000	55,000
4/01/41	57,000	57,000
4/01/42	56,000	56,000

# CITY OF ONAWAY SCHEDULE OF BONDED INDEBTEDNESS MARCH 31, 2006

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES (CONTINUED): 2003 Sanitary Sewer System Revenue Bond, Series C Payments due:			· · · · · · · · · · · · · · · · · · ·
April I and October 1	5/6/2003	\$283,000	4.500/
		Ψ <b>2</b> 03, <b>000</b>	4.50%
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			4.50
			4.50

TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES C

(Continued)

AMOUNT OUTSTANDING MARCH 31,

2006

13,500

14,500

16,500

280,000

DATE OF MATURITY

4/01/40

4/01/41

4/01/42

AMOUNT OF ANNUAL MATURITY

4/01/06	\$3,000	\$3,000
4/01/07	3,000	3,000
4/01/08	3,500	3,500
4/01/19	3,500	3,500
4/01/10	3,500	3,500
4/01/11	4,000	4,000
4/01/12	4,000	4,000
4/01/13	4,000	4,000
4/01/14	4,500	4,500
4/01/15	4,500	4,500
4/01/16	5,000	5,000
4/01/17	5,000	5,000
4/01/18	5,000	5,000
4/01/19	5,500	5,500
4/01/20	5,500	5,500
4/01/21	6,000	6,000
4/01/22	6,000	6,000
4/01/23	6,500	6,500
4/01/24	7,000	7,000
4/01/25	7,000	7,000
4/01/26	7,500	7,500
4/01/27	7,500	7,500
4/01/28	8,000	8,000
4/01/29	8,500	8,500
4/01/30	9,000	9,000
4/01/31	9,000	9,000
4/01/32	9,500	9,500
4/01/33	10,000	10,000
4/01/34	10,500	10,500
4/01/35	11,000	11,000
4/01/36	11,500	11,500
4/01/37	12,000	12,000
4/01/38	12,500	12,500
4/01/39	13,000	13,000
	12 500	12 500

13,500

14,500

16,500

# CITY OF ONAWAY SCHEDULE OF BONDED INDEBTEDNESS MARCH 31, 2006

BUSINESS-TYPE ACTIVITIES (CONTINUED): 2005 Sanitary Sewer System Revenue Bond, Series D	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
Payments due:			
April I and October I	8/2/2005	\$1,095,000	4.125%
		, ,,	4.125
			4.125
			4.125
			4.125
			4.125
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			TELEG

TOTAL 2005 SANITARY SEWER SYSTEM REVENUE BOND, SERIES D

TOTAL BUSINESS-TYPE ACTIVITIES BONDED INDEBTEDNESS:

	DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2006
	4/01/08	\$11,000	\$11,000
	4/01/19	12,000	12,000
	4/01/10	12,000	12,000
	4/01/11	13,000	13,000
	4/01/12	14,000	14,000
	4/01/13	14,000	14,000
	4/01/14	15,000	15,000
	4/01/15	15,000	15,000
	4/01/16	16,000	16,000
	4/01/17	17,000	17,000
•	4/01/18	18,000	18,000
	4/01/19	18,000	18,000
	4/01/20	19,000	19,000
	4/01/21	20,000	20,000
	4/01/22	21,000	21,000
	4/01/23	22,000	22,000
	4/01/24	23,000	23,000
	4/01/25	24,000	24,000
	4/01/26	25,000	25,000
	4/01/27	26,000	26,000
	4/01/28	27,000	27,000
	4/01/29	29,000	29,000
.,	4/01/30	30,000	30,000
	4/01/31	31,000	31,000
el .	4/01/32	33,000	33,000
.,	4/01/33	34,000	34,000
	4/01/34	36,000	36,000
	4/01/35	37,000	37,000
	4/01/36	39,000	39,000
	4/01/37	41,000	41,000
,	4/01/38	43,000	43,000
	4/01/39	44,000	44,000
	4/01/40	46,000	46,000
	4/01/41	49,000	49,000
	4/01/42	51,000	51,000
	4/01/43	53,000	53,000
	4/01/44	55,000	55,000
	4/01/45	62,000	62,000
	<del>-</del>		
			1,095,000

\$2,646,000

# CITY OF ONAWAY SCHEDULE OF CONTRACTUAL INDEBTEDNESS MARCH 31, 2006

	INTERESTRATE	INSTALLMENT CONTRACTS PAYABLE APRIL 1, 2005	INSTALLMENT CONTRACT ISSUED
GOVERNMENTAL ACTIVITIES:			
International Truck	4.125%	<b>s</b> -	\$50,000
Kubota Tractor	2.96	3,200	-
Fire Equipment	4.68	10,255	-
Fire Station Facility	5.51	124,361	<u>-</u>
TOTAL INSTALLMENT CONTRACTS PAYABLE			\$50,000

# INSTALLMENT CONTRACTS PAYABLE PAYMENTS MARCH 31, 2006

<b>s</b> -	\$50,000
3,200	-
5,009	5,246
10,253	114,108
\$18,462	\$169,354

# FEDERAL AWARDS SUPPLEMENTARY INFORMATION

### CITY OF ONAWAY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED MARCH 31, 2006

FEDERAL GRANTOR/PASS THROUGH	FEDERAL CFDA	PROGRAM OR AWARD GRANT	CURRENT YEAR	CURRENT YEAR
GRANTOR/PROGRAM TITLE	NUMBER	NUMBER	RECEIPTS	EXPENDITURES
U.S DEPARTMENT OF AGRICULTURE:				
Rural Development, Rural Utilities Service,				
Water and Waste Disposal Systems for				
Rural Communities, Other Federal Assistance,	10.760	N/A	\$315,658	\$315,745
Sanitary Sewer System - Grant	10.700	IVA.	#313,030	93134143
Rural Development, Rural Utilities Service,				
Water and Waste Disposal Systems for				
Rural Communities, Other Federal Assistance,				
Sanitary Sewer System - Grant	10.760	N/A	441,284	441,284
Rural Development, Rural Utilities Service,				
Water and Waste Disposal Systems for				
Rural Communities, Other Federal Assistance,				
Sanitary Scwer System - Loan	10.760	N/A	1,095,000	1,095,000
Rural Development Administration				
Community Facilities Loans and Grants  Community Facilities Grant	10.766	N/A	60,000	60,000
Community Factories Gram	10.700	1.078	00,000	00,000
Rural Development Administration				
Community Facilities Loans and Grants				
Community Facilities Grant	10.766	N/A	58,000	58,000
Rural Development Administration				
Community Facilities Loans and Grants				
Community Facilities Loan	10.766	N/A	50,000	50,000
Community 1 actitudes 20ab	201120		,	,
U.S. Forest Service				
Passed through Michigan Department of				
Natural Resources				
Volunteer Fire Assistance	10.664	04DG11244225046	2,316	2,316
TOTAL U.S DEPARTMENT OF AGRICULTURE			2,022,258	2,022,345
HIC DEBARTMENT OF HOUGING AND				
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Michigan Strategic Fund,				
Community Development Block Grant -				
City Sewer and Water Project	14.228	MSC 203039-EDIG	(12,985)	(12,985)
Passed through Michigan Strategic Fund,				
Community Development Block Grant -				
Downtown Development Project	14.228	MSC 201082-EDIG	112,253	112,253
TOTAL U.S DEPARTMENT OF HOUSING AND				
URBAN DEVELOPMENT			99,268	99,268
U.S DEPARTMENT OF COMMERCE				
Economic Development Assistance				
Public Works and Development Facilities	11.300	06-01-04672	507,515	726,134
				*- * <b>*</b> * * * * * * * * * * * * * * * * *
TOTAL FEDERAL FINANCIAL ASSISTANCE		=	\$2,629,041	\$2,847,747

### CITY OF ONAWAY SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS FOR THE YEAR ENDED MARCH 31, 2006

GRANTOR/PROGRAM TITLE	PROGRAM OR AWARD GRANT NUMBER	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES
Presque Isle County Onaway Wastewater Collection and Treatment System Sewer laterals/connections	N/A	\$14,281	\$14,281
MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY Surface Water Quality Division - Clean Michigan Initiative Onaway Wastewater Collection and Treatment System	2001-0041	219,178	219,178
TOTAL NON-FEDERAL FINANCIAL ASSISTANCE	-	\$233,459	\$233,459

# NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended March 31, 2006

# Note 1 - Reconciliation of Reported Expenditures and Revenues to Financial Statement Totals

The following is a reconciliation of total federal expenditures and revenues reported on the Schedule of Expenditures of Federal Awards to the federal expenditures and revenues administered by the City.

Proprietary Funds:	
Enterprise Funds: Sewer:	
Recorded as eonstruction in progress-sewer	\$2,335,810
Recorded as equipment-sewer	20,532
Recorded as finance costs	17,500
Recorded as operating expenses-sewer	34,444
Total Federal Expenditures, Enterprise Fund – Sewer	2,408,286
Water:	00.040
Recorded as construction in progress-water	99,840
Total Federal Expenditures, Enterprise Funds	2,508,126
Governmental Activities – Internal Service Fund:	
Recorded as equipment – vehicles and machinery	106,979
Less-non federal amount, City contribution	(1,021)
Total Federal Expenditures, Internal Service Fund	108,000
Governmental Funds:	
General Fund: Recorded as capital outlay	218,945
Less – non federal amounts recorded as capital outlay:	<b>,</b> -
City contribution recorded as capital outlay	(158,945)
Total Federal Expenditures, Courthouse Construction Fund	60,000
Local Street Fund:	
Recorded as street construction/construction in progress	57,052
Onaway Area Fire Board Fund: Recorded as capital outlay	2,316
Courthouse Construction Fund:	
Recorded as capital outlay	114,143
Less - non federal amounts recorded as capital outlay:	
City contribution recorded as capital outlay	(1,890)
Total Federal Expenditures, Courthouse Construction Fund	112,253
Total Expenditures per Schedule of Expenditures of Federal Awards (SEFA)	2,847,747

# NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED) Year Ended March 31, 2006

# Note 1 - Reconciliation of Reported Expenditures and Revenues to Financial Statement Totals (Continued)

Reconciliation	of financial statements to SEFA Current Year Receipts

Total federal revenues per financial statements	\$2,847,660
Governmental Activities - Internal Service Fund as debt proceeds	50,000
Governmental Activities - Internal Service Fund as federal revenues	58,000
Proprietary funds as debt proceeds	1,095,000
Proprietary funds as federal revenues	1,413,037
Governmental funds as federal revenue	\$231,623
Recorded in:	
Total federal revenues per financial statements	\$2,847,660
Plus: prior year deferred federal revenues	218,619
Reconciliation to federal revenues recorded in financial statements	
Total Receipts per Schedule of Expenditures of Federal Awards	2,629,041
Grant revenues due in subsequent year	(87)
Enterprise Funds	(201,130)
Governmental Funds:	(\$17,489)
Deferred federal revenues recorded in:	

### **Note 2-Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Onaway and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 3 - Loans Outstanding

The City of Onaway has outstanding federal loan balances in the amount of \$2,778,000 at March 31, 2006, as shown at Note 6 in the accompanying notes to the financial statements.

# Note 4 -Subrecipient's

The City of Onaway provided no federal award dollars to a subrecipient during the fiscal year.

Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 28, 2006

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the *City of Onaway, Onaway, Michigan* as of and for the year ended March 31, 2006, which collectively comprise the *City of Onaway's* basic financial statements and have issued my report thereon dated November 28, 2006. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

# Internal Control Over Financial Reporting

In planning and performing my audit, I considered the *City of Onaway's* internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider material weaknesses.

# Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Onaway's* financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the *City of Onaway* in a separate letter dated November 28, 2006.

This report is intended solely for the information and use of management, members of the commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Richard E. Mahlmeister, C.P.A.

Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

# REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 28, 2006

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

# Compliance

I have audited the compliance of the City of Onaway, Onaway, Michigan, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended March 31, 2006. The City of Onaway's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Onaway's management. My responsibility is to express an opinion on the City of Onaway's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Onaway's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that the audit provides a reasonable basis for my opinion. The audit does not provide a legal determination on the City of Onaway's compliance with those requirements.

In my opinion, the *City of Onaway, Onaway, Michigan*, complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended March 31, 2006.

# Internal Control Over Compliance

The management of the *City of Onaway*, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations contracts, and grants applicable to federal programs. In planning and performing the audit, I considered the *City of Onaway's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management, members of the commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Keeheul Muhlmek CPA Richard E. Mahlmeister, C.P.A.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended March 31, 2006

## SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

- 1. An unqualified opinion was issued on its financial statements.
- 2. There were no reportable conditions disclosed during the audit of the financial statements.
- 3. I noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements, which would need to be reported in accordance with *Government Auditing Standards*.
- 4. An unqualified opinion was issued on compliance for major programs. I did not disclose any findings related to internal controls or compliance related to the major programs tested.
- 5. There are no findings relative to the major federal award programs that are required to be reported under Section 510 (a) of OMB Circular A-133.
- 6. Identification of major programs:

CFDA#	Name of Federal Program or Cluster
10.760	Rural Development, Rural Utilities Service
11.300	Public Works and Development Facilities

- 7. The threshold used to distinguish between a Type A and B program was \$300,000.
- 8. The City qualified as a low-risk auditee.

# SECTION II – FINANCIAL STATEMENT FINDINGS

1. No financial statement findings are reported.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. No federal award findings or questioned costs are reported.

### SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

1. There were no prior year audit findings or questioned costs reported.



Member.

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

November 28, 2006

Honorable Mayor and Members of the City Commission City of Onaway Onaway, Michigan

In planning and performing my audit of the financial statements of the *City of Onaway*, *Onaway*, *Michigan* for the year ended March 31, 2006, I considered the City's internal control structure to plan my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit 1 noted certain matters involving the internal control structure and other operational matters, presented for your consideration, that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and recommendations regarding those matters. This letter does not affect my report dated November 28, 2006 on the financial statements of the *City of Onaway, Onaway, Michigan*.

Thank you for the opportunity to serve the *City of Onaway*. I appreciate the assistance I received from both Joe Hefele and Kelli Stockwell. Best wishes in the next year.

Sincerely,

Richard E. Mahlmeister, C.P.A.

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City of Onaway Comments & Recommendations November 28, 2006 Page 2 (two)

# EXCESS OF EXPENDITURES OVER APPROPRIATIONS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2006, the City incurred expenditures in certain budgetary funds, which exceeded the amount appropriated, as shown in the body of the financial statements.

The City generally does an excellent job in this area. I commend the City for working with the Onaway Area Fire Board Fund to improve this. I, again, recommend that the City continue to work with the Fire Board to ensure that the budgeting procedures comply with P.A. 621 of 1978.

## **BOND RESERVES**

The City has not provided for the funding of the Bond Retirement Reserve account for the Sewer Fund as of March 31, 2006. Revenue Bond Ordinances Nos. 2002-05 (\$1,125,000, Sanitary Sewer System Revenue Bond, Series A), 2003-02 (\$283,000, Sanitary Sewer System Revenue Bond, Series C) and 2005-01 (\$1,095,000, Sanitary System Revenue Bond, Series D) requires the sum of \$15,110 to be set aside as of March 31, 2005.

I understand that the City expects to fund the required amounts when the sewer system is completed and becomes fully operational. I also understand that the U.S.D.A. is aware of this and has expressed willingness to work with the City on finding solutions for funding these required reserves once the sewer system becomes fully operational. I, of course, recommend that the City accept this assistance that has been offered.

I would also like to again remind the City that the \$84,000 Sanitary Sewer System Revenue Bond, Series A, Ordinance No. 2002-06 has reserve requirements to meet, once the sewer system becomes fully operational